

109TH CONGRESS
2D SESSION

S. 2458

To amend the Internal Revenue Code of 1986 to encourage college savings by providing a Federal income tax credit to match contributions to Coverdell education savings accounts, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 27, 2006

Ms. STABENOW introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to encourage college savings by providing a Federal income tax credit to match contributions to Coverdell education savings accounts, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Kick Start to College
5 Act”.

1 **SEC. 2. TAX CREDIT MATCH OF CONTRIBUTIONS TO COVER-**
 2 **DELL EDUCATION SAVINGS ACCOUNTS.**

3 (a) IN GENERAL.—Subpart C of part IV of sub-
 4 chapter A of chapter 1 of the Internal Revenue Code of
 5 1986 (relating to refundable credits) is amended by redes-
 6 ignating section 36 as section 37 and by inserting after
 7 section 35 the following new section:

8 **“SEC. 36. CREDIT MATCH OF CONTRIBUTIONS TO COVER-**
 9 **DELL EDUCATION SAVINGS ACCOUNTS.**

10 “(a) IN GENERAL.—There shall be allowed as a cred-
 11 it against the tax imposed by this subtitle an amount equal
 12 to the aggregate contributions of the taxpayer for the tax-
 13 able year to a qualified higher education subaccount which
 14 is established for the benefit of any qualified beneficiary
 15 of the taxpayer.

16 “(b) DOLLAR LIMITATION.—

17 “(1) IN GENERAL.—The credit allowed to a tax-
 18 payer by subsection (a) with respect to each quali-
 19 fied beneficiary for the taxable year shall not exceed
 20 the applicable amount.

21 “(2) APPLICABLE AMOUNT.—For purposes of
 22 paragraph (1)—

23 “(A) IN GENERAL.—The applicable
 24 amount with respect to each qualified bene-
 25 ficiary for any taxable year is the lesser of—

26 “(i) \$1,000, or

1 “(ii) \$6,000, reduced (but not below
 2 zero) by the aggregate amount of the cred-
 3 its allowed under this section with respect
 4 to the qualified beneficiary for all pre-
 5 ceding taxable years.

6 In the case of a qualified beneficiary who has
 7 attained the age of 7 before the close of the
 8 taxable year, clause (ii) shall be applied by sub-
 9 stituting ‘\$5,000’ for ‘\$6,000’. The preceding
 10 sentence shall not apply to a qualified bene-
 11 ficiary who attains the age of 7 before January
 12 1, 2007.

13 “(B) REDUCTION BASED ON ADJUSTED
 14 GROSS INCOME.—The applicable amount deter-
 15 mined under subparagraph (A) for any taxable
 16 year shall be reduced (but not below zero) by
 17 the amount which bears the same ratio to the
 18 applicable amount as the—

19 “(i) taxpayer’s modified adjusted
 20 gross income (as defined in section
 21 530(c)(2)) for such taxable year in excess
 22 of \$95,000 (\$190,000 in the case of a joint
 23 return), bears to

24 “(ii) \$15,000 (\$30,000 in the case of
 25 a joint return).

1 “(c) QUALIFIED BENEFICIARY.—For purposes of
 2 this section, the term ‘qualified beneficiary’ means the des-
 3 ignated beneficiary of the Coverdell education savings ac-
 4 count who is a qualifying child of the taxpayer (within the
 5 meaning of section 32(c)(3), determined without regard
 6 to subclause (II) of subparagraph (B)(i) thereof).

7 “(d) PAYMENT OF CREDIT.—

8 “(1) IN GENERAL.—Notwithstanding any other
 9 provision of this title, any amount allowed as a cred-
 10 it under subsection (a) (determined without regard
 11 to paragraph (2)) with respect to any contributions
 12 to a qualified higher education subaccount estab-
 13 lished for the benefit of a qualified beneficiary shall
 14 be deposited by the Secretary into the qualified high-
 15 er education subaccount.

16 “(2) COORDINATION WITH DEPOSITS.—With re-
 17 spect to any taxable year, the aggregate amount
 18 which would (but for this subsection) be allowed as
 19 a credit to the eligible taxpayer under this section
 20 with respect to each qualified beneficiary shall be re-
 21 duced (but not below zero) by the aggregate amount
 22 deposited under paragraph (1) with respect to such
 23 beneficiary for such taxable year.

24 “(3) REQUIRED INFORMATION.—With respect
 25 to each qualified beneficiary, no credit shall be al-

1 lowed under this section to a taxpayer who does not
2 include on the return of tax for the taxable year—

3 “(A) the identification number for any
4 Coverdell education savings account of the
5 qualified beneficiary,

6 “(B) such information regarding the ad-
7 ministrator of such account as the Secretary
8 may prescribe, and

9 “(C) the amount paid by the taxpayer dur-
10 ing the taxable year to any qualified higher
11 education subaccount established within the
12 Coverdell education savings accounts for the
13 benefit of such qualified beneficiary.

14 “(e) MARITAL STATUS; CERTAIN MARRIED INDIVID-
15 UALS LIVING APART.—Rules similar to the rules of para-
16 graphs (2), (3), and (4) of section 21(e) shall apply for
17 purposes of this section.

18 “(f) REGULATIONS.—The Secretary may prescribe
19 such regulations and other guidance as may be necessary
20 or appropriate to carry out this section.”.

21 (b) MODIFICATIONS TO COVERDELL EDUCATION
22 SAVINGS ACCOUNT PROVISIONS.—Section 530 of the In-
23 ternal Revenue Code of 1986 (relating to Coverdell edu-
24 cation savings accounts) is amended by adding at the end
25 the following new subsection:

1 “(i) QUALIFIED HIGHER-EDUCATION SUB-
2 ACCOUNTS.—

3 “(1) IN GENERAL.—The trustee of a Coverdell
4 education savings account may elect to allow individ-
5 uals to elect to establish, and make contributions to,
6 a qualified higher education subaccount within the
7 account.

8 “(2) TREATMENT OF SUBACCOUNT.—

9 “(A) IN GENERAL.—Amounts in the sub-
10 account shall be treated in the same manner as
11 amounts in the Coverdell education savings ac-
12 count, except that such amounts shall be held
13 exclusively for the purpose of paying qualified
14 higher education expenses (as defined in section
15 529(e)(3)), including amounts described in sub-
16 section (b)(2)(B).

17 “(B) APPLICATION OF LIMIT.—For pur-
18 poses of applying the limit under subsection
19 (b)(1)(A)(iii)—

20 “(i) contributions to a qualified higher
21 education subaccount and other contribu-
22 tions to the Coverdell education savings ac-
23 count shall be aggregated, and

1 “(ii) payments to the subaccount by
 2 the Secretary under section 36(d)(1) shall
 3 not be taken into account.

4 “(C) TREATMENT OF DISTRIBUTIONS.—
 5 For purposes of subsection (d)—

6 “(i) IN GENERAL.—In determining
 7 whether distributions from a qualified
 8 higher education subaccount exceed the
 9 qualified education expenses of the des-
 10 ignated beneficiary, only expenses de-
 11 scribed in subparagraph (A) shall be taken
 12 into account.

13 “(ii) ROLLOVERS.—Any amount paid
 14 or distributed out of a qualified higher
 15 education subaccount shall be treated as a
 16 rollover contribution under subsection
 17 (d)(5) only if it is paid to another such
 18 subaccount within the required time pe-
 19 riod.

20 “(iii) DISTRIBUTIONS NOT USED FOR
 21 QUALIFIED EXPENSES.—If any amount
 22 paid or distributed out of a qualified high-
 23 er education subaccount which is allocable
 24 to a payment to the subaccount by the
 25 Secretary under section 36(d)(1) (and

earnings thereon) exceeds the qualified education expenses of the designated beneficiary (determined after application of clause (i))—

“(I) such amount shall not be includible in gross income, but

“(II) the tax imposed by this chapter for the taxable year of the taxpayer who receives the payment or distribution shall be increased by 100 percent of the amount of the excess.

For purposes of the preceding sentence, payments or distributions shall be treated as having been made first from payments under section 36(d)(1) (and earnings thereon). This clause shall not apply to payments or distributions described in clause (i) or (ii) of subsection (d)(4)(B).”.

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by inserting before the period “, or from section 36 of such Code”.

(2) The table of sections for subpart C of part IV of chapter 1 of the Internal Revenue Code of

1 1986 is amended by striking the last item and in-
2 serting the following new items:

“Sec. 36. Credit match of contributions to Coverdell education savings ac-
counts.

“Sec. 37. Overpayments of tax.”.

3 (d) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2006.

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